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SUMMARY

By 2003, the size of the Hungarian telecommunications market will double to HUF 1,200 billion (USD 4.4 billion). Currently 15-20 major telecommunications service providers dominate the market. However, even with new companies entering the market in 2002 after the liberalization of the market, only three major groups of companies are expected to be present in the market in four to five years.

At the end of 1999 there were 3.7 million main lines in Hungary. MATAV, the Hungarian Telecommunications Company, which has a monopoly on international and long distance call until January 1, 2002, operates 2.9 million of these lines and covers 72 percent of the population of Hungary. The remaining 800,000 lines are operated by local telephone operators that were granted 25-year service concessions in 1994 with monopoly rights expiring at multiple dates during 2002. In 1997, several alternative service providers (Pantel, Novacom, GTS, and UPC) established market presences in order to compete with MATAV following the January 2002

liberalization. In July 2000, mobile phone penetration was 22 percent and it is expected to reach 28 percent by the end of 2000. All three GSM service providers offer Wireless Application Protocol (WAP) and one, Westel 900, will introduce General Packet Radio Service (GPRS) at the end of 2000.

A wide variety of value-added telecom services are available from the present service providers. However, according to telecom providers, the value-added telecommunications service sub-sector is a small portion of the overall telecommunications sector and no data exists on the size of the value-added telecom market. The following services are briefly outlined in this report: ISDN, Voice Mail, Call Barring, Call Waiting, Call Forwarding, Calling Line Identification, Hot Line, Blue & Green Numbers, Teleconferencing, Voice Billing, Directory Assistance, Short Messages System, prepaid calling cards, and WAP.

MARKET OVERVIEW

As stated above, the size of the Hungarian telecommunications market will double over the next three years and there is expected to be a significant restructuring among the current service providers with an end result of less than five major companies present in the market after four to five years.

Currently fixed line communications represents 57 percent of the market, mobile communications 36 percent, data transmission 6 percent, and internet services 1 percent. According to forecasts, the internet segment of the market will reach ten percent by 2003.

MATAV operated 2.9 million lines as of June 2000 (representing a growth of nearly 255,000 direct exchange lines) including 2,335,103 residential, 361,492 business lines, 36,481 payphones, and 181,416 ISDN channels. MATAV services cover 70 percent of the area of Hungary and 72 percent of the population. The phone penetration in MATAV's primary service areas reaches 38.8 percent (compared to 8.1 percent in 1988), the highest figure in the region. Density on main lines is likely to reach 40 percent in the company's service areas by the end of 2000. The digitalization rate of the network is 81.2 percent.

MATAV has a monopoly on long distance and international public switched services until the end of 2001. The company is also the major, but not exclusive, provider of local telecommunications services, directly serving customers in 36 regions (out of 54 primary areas) and, in a joint venture with Aphrodite B.V, also provides service in three other areas. MATAV is also engaged in the mobile telephone market as a majority shareholder in two mobile service providers (Westel Radiotelephone Co. Ltd. and Westel 900). MATAVNet, a subsidiary of MATAV is the dominant internet service provider in the country with 51,314 dial-up subscribers (end of 1999) representing a 59 percent market share. MATAVKabel, a subsidiary of MATAV is the second largest cable TV service provider with 170,000 subscribers (10 percent market share) with plans for expansion.

The remaining local telephone operators (LTOs) operated 819,123 lines (end of 1999) in 18 primary areas covering 12 percent of the population. The local telephone companies in these areas are operated by four groups (with ownership):

Emitel (50% MATAV, 50% Aphrodite Investment Holding, the Netherlands)**:** 3 primary areas (PA)
Vivendi (100% Vivendi Telecom International, France): Deltav (2 PA), Digitel 2002 (2 PA), Jasz-Tel (1PA), Dunatel (1PA), Egomcom (1PA), Kisdunacom (1PA) and Bakonytel (1PA)
HTCC (established in the US with major shareholders of Citizens Utilities (19.2%) Tele Denmark 21.3% Post Bank, Hungary (20.2%) Danish Fund 10.7%, Public 28.6%): Kelet-Nograd Com (1PA), Papatel (1PA), Raba-Com (1PA) Hungarotel (2 PA)
UPC (Paruse B.V. Amsterdam, United Global Com Inc. Denver, Colorado): Monor TT (1PA)

The number of telephone lines in Hungary, including the lines of the LTOs, totaled approximately 3.7 million at the end of 1999. All telephone concession-holders (MATAV and the LTOs) are required to achieve greater than 15.5 percent annual growth rates.

Mobile telephony is a fast-growing telecommunications sub-sector in Hungary with a 22 percent penetration in June 2000. The number of mobile phone subscribers reached 2.2 million in July 2000 and is expected to amount to 2.5-3 million by the end of 2000 (and may exceed the number of fixed-line telephone subscribers in the third or fourth quarter of 2001). There are three mobile service providers in Hungary. Westel Radiotelephone Co. Ltd. was established in 1990 and operates a 450 MHz mobile cellular communications system. In 1993, two concessions were issued for 900 MHz digital (GSM) cellular systems to Westel 900 and Pannon GSM, both of which started operations in 1994. In October 1999, a concession contract was signed with a consortium to provide mobile phone services on 1800 MHz. The company started services under the name of Vodafone on November 30, 1999. Both Westel 900 and Pannon GSM have been granted concessions to provide 1800 MHz services once Vodafone's twelve-month monopoly period ends (December 2000). . In July 2000, Westel 900 reached 1.2 million subscribers, Pannon GSM had 833,000, Westel Radiotelephone had 100,000, and Vodafone had 100,000 subscribers.

A tender for a third-generation mobile phone system (Universal Mobile Telecommunications Service-UMTS) is expected to be invited at the end of 2001 with the condition that the service would not start before 2003. Dresdner Kleinwort Benson's (DKB) recent analysis predicts that there will be three winners of UMTS licenses and estimates that the fee for the licensees would be approximately USD 63-133 million per license. The Communications Authority of Hungary will hold an auction for parts of the 3.5GHz frequency at the end of 2000 and another auction for parts of the 26 GHz frequency would start 6 or 12 months later. Bids will be invited for five 3.5GHz packages, each providing nationwide penetration. Auction rules will allow a mix of bidding and drawing. Cash will no longer be the only form of payment accepted and payment deadline will be extended to 45 days. Telecom service providers linked by ownership, cross-ownership or through management links will be excluded from bidding against each other.

Public switched data transmission services are not regulated by concessions. PanTel (75.2% owned by the Dutch Telecom, KPM) entered the market in April 1998 to provide leased line and data services and has about 500 business clients. Its Network Management Center was opened in February 2000, managing a 500 km SDH-based fiber-optic network and also functions as the company's Budapest transmission center, as well as its ATM, Frame Relay and IP switching center.

Novacom, a joint venture of RWE Tellience AG of Germany (50%) EnBWs Telekommunikationsholding Sudwest Gmbh. (25%) and Budapest Electricity Works-ELMU (25%) was established in November 1997 and has spent more than HUF 1 billion building an IP network to compete with MATAV after the liberalization of the Hungarian telecom market. In February 1999, it completed construction of a fiber optic network in Budapest and in April 1999 it began providing data and voice transmission services to two electricity-distribution companies (ELMU and EMASZ) using a 1,000 km fiber optic network and currently has about 100 business customers. In 1999, the company introduced its "Voice over IP" service and in July 2000 opened an Internet Solution Center providing access to the global network of PSINet, Telia, and UUNet. In August 2000 Novacom invited bids from selected companies for 100% of their stakes.

Antenna Hungaria, the state-owned Hungarian Broadcasting Co., also engages in telecommunication activities (VSAT, paging, nationwide microwave network etc.) and is positioning itself to expand its telecom business in 2002.

GTS Hungary was established in 1993 as the Hungarian subsidiary of the U.S.-based Global TeleSystems Group, Inc. to service the government and business sectors with VSAT technology, Frame Relay communications, closed user group voice communications over data networks and internet services. GTS connected Budapest on a 2.5 Gb/s line to its pan-European optical fiber network backbone (Ebone) and signed a contract with UPC (the leading cable operator in Hungary) for high capacity IP transit services between Budapest and other European cities. UPC (headquartered in Amsterdam as a member of the largest pan-European group of broadband communication networks is a consolidated subsidiary of Denver-based UnitedGlobalCom, Inc.) has cable connections to 530,000 households and also plans to have a significant presence in the telecommunications market after the liberalization.

The estimated number of regular Internet users in Hungary is approximately 6-800,000 with most having Internet access from schools and offices (7% internet penetration). The number of private Internet subscribers (approximately 154,000 dial-up users in March, 2000) is expected to grow by 50-70% while the number of business users doubles yearly.

REGULATORY FRAMEWORK

According to the Act LXXII of 1992 on Telecommunications, MATAV retains the monopoly right to provide long distance and international public switched services until the end of 2001.

Local telephone operators have monopoly rights for local services until November 1, 2002. The law defines areas of limited and full competition. Mobile telephone services and national paging systems fall in the category of limited competition areas. This means that in addition to the existing operators at the time the law was passed, two additional suppliers may be granted concessions.

The following are areas of full competition (not regulated by concessions).

- Mobile services (other than public mobile telephone services) that are linked to the public telephone network;
- Satellite services (operation of ground stations, VSAT services, data network links, etc.);
- Public switched data transmission services (circuit switched, packet switched);
- Value-added services;
- Leased-line resale;
- Dedicated (special purpose) network operations;
- Operation of closed-loop networks;
- Planning and implementation of networks subject to service licenses.

The Communications Authority (Hirkozlesi Fofelugyelet or HIF) is the licensing, supervising, regulatory and administrative agency for telecommunications, postal services and frequency management in Hungary. The Prime Minister's Office is responsible for policy-making, law-making and granting concessions.

On July 28, 1999 the modification of the Telecommunications Law was enacted allowing the use of the Internet for telephony. Currently MATAV, the local telephone operators (Emitel, HTCC, Vivendi, Monortel), Pantel, Novacom and three GSM service providers offer Voice over IP service.

The Unified Communications Law (UCL) is currently drafted and is expected to be passed by the Parliament in the first half of 2001 and will be enacted on January 1, 2002. The new law will regulate (among others) the issues of unbundling, specification of significant service providers, licensing regime.

As of June 30, 2000, the Communications Authority of Hungary simplified its type approval procedure for telecommunications equipment to harmonize with the legal system of the European Union. While test records and certificates of conformity issued before June 30, 2000 remain in effect, only attesting agencies having obtained authorization for attesting on the basis of Decree 22/1999 (Aug.4.) may act as attesting bodies since that date.

The Hungarian government has indicated readiness to sign the Singapore agreement allowing duty free import of IT and mobile communications equipment into Hungary beginning in 2001. All telecommunications services and products are subject to 25 percent Value Added Tax (VAT). Thus far, efforts to reduce the relevant VAT by half have failed but are expected to continue.

PRIVATIZATION

The Hungarian telecommunications sector is now privatized. In 1991, MATAV was transformed into a shareholding company (Rt); all the shares were held by the State Assets Handling Co. (AVRt). The first round of privatization of MATAV, the Hungarian Telecommunications Co. occurred in December 1993, with 30.2 percent of the company's shares sold to MagyarCom, a consortium consisting of Ameritech and Deutsche Telekom for USD 875 million. In December 1995, MagyarCom increased its stake in MATAV, buying an additional 37 percent for USD 852 million. MagyarCom held a 67.35 percent stake and APV Rt. (the State Privatization and Holding Co.) retained 25.44 percent when a public offering was carried out in November 1997. Twenty-six percent of all shares were introduced simultaneously on the Budapest Stock Exchange and the New York Stock Exchange. In the spring of 1999 APV Rt. sold the last 5.75 percent share package held by the Hungarian State. The State retains its Golden Share. In July, 2000 Deutsche Telekom acquired the 50 percent stake of SBC-Ameritech in MagyarCom for USD 2.2 billion, increasing its holding to 100 percent in the company that holds 59.53 percent of MATAV shares.

INFRASTRUCTURE

As the primary telecommunication company in Hungary, MATAV owns and operates significant portions of the country's telecommunication infrastructure. Among its holdings are:

Exchanges and Access Network. As of June 30, 2000, 81.2 percent of MATAV's exchange capacity was digital. Each of the MATAV concession areas is served by at least one digital primary exchange. The local networks have been expanded and modernized. In 1996, the company started to deploy a Wireless Local Loop system supplied by Motorola. By 1999, 164,000 radio-linked subscribers lines were installed. MATAV uses fiber optic cables in its fixed line local loop networks, serving approximately 165,000 subscribers. At the end of 1999, there were approximately 45,000 installed channels available to connect additional subscribers to the fiber optic local loop networks.

Backbone Network. A digital fiber optic national long distance network connects local primary area networks. MATAV has implemented synchronous digital hierarchy systems in both the national long distance and Budapest networks. As of December 31, 1999, MATAV had 4,552 km of digital backbone network.

Intelligent Network. MATAV launched the first set of Intelligent Network services (shared cost and toll free numbers, Televoting, and Virtual Card Calling).

Asynchronous Transfer Mode (ATM). MATAV introduced ATM technology in 1998. Based on this technology, high speed LAN-Flex (LAN interconnection services) and Cell-Flex (high speed data transmission service) services are commercially providing flexible bandwidth delivery.

MATAV intends to introduce switched capabilities on this network in 2000 and 2001, to enhance the efficiency of broadband services.

International Network. MATAV's international network consists of two state-of-the-art digital exchanges connecting the domestic network with 214 countries. MATAV has 11 fiber optic connections, one digital microwave link and one satellite earth station. MATAV has established direct "Common Channel Signaling 7" connections to 40 countries and intends to expand these connections to ten additional countries in 2000. MATAV has also established international ISDN connections with 30 countries and is scheduled to connect ten additional countries in 2000.

Other companies own and/or operate the following infrastructure components:

Vivendi has invested USD 550 million so far in Hungary including the acquisition of a fiber optic network in Budapest with 4-5000 km fiber optic cable. The company provides data transmission services to 30,000 business customers through its subsidiary, PartnerCom Rt.

HTCC has a network of 1,181 km optical cable with three Siemens and two Ericsson digital main switches (122 remote switching units) and transmission equipment delivered by Siemens and Nokia. HTCC also has a strategic partnership agreement with Avaya (formerly, Lucent Technologies Hungary Co. Ltd) for the nationwide distribution of Lucent private branch exchange systems.

Emitel has installed more than 50 digital exchanges and upgraded existing analog switches in its 400 km long fiber optic network and several thousand km. of local loop in the 84 communities it serves.

Monortel operates an Ericsson digital main switch and its 43 remote switches are connected with 280 km fiber optic cable. In addition to the 76,000 phone subscribers there are 35,000 cable subscribers using its combined copper, optical and coax cable network.

STATISTICAL DATA
Population in Hungary: 10 million

Operator	Number of Fixed Lines				Percent of Annual Increase		
	Current year estimate	Analog	Digital	Waiting list	2000	2001	2002
MATAV	2,914,492	547,924	2,366,567	none	n.a.	n.a.	n.a.
Vivendi	463,237	452,250	10,987	4985	95%*	300%*	200%*
HTTC	201,718	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Monortel	76,000		76,000	none	2%	2%	2%
Emitel	86,500	23,000	63,500	963	n.a.	n.a.	n.a.

Mobile Phones	2.8 million				75.3	35.7	23.7

* Digital phone lines only
Source: MATAV, LTOs, Dresdner Kleinwort Benson

Data on value-added-telecom services are not available.

MARKET TRENDS

MATAV, the dominant service provider, offers a complete range of value-added-telecom services, including:

- *ISDN commercial service* started in November 1995 and the number of ISDN B channels has grown to 181,416 as of June 2000. Residential customers are a fast growing segment of the company's ISDN service users. Out of the total number of ISDN subscribers, 50-60,000 are private users and their number is growing by 3,000 each month.
- *Asymmetric Digital Subscriber Line (ADSL) services* were launched on September 1, 2000. Built on the existing ISDN system, the service is available only in select areas of Budapest. As a condition of its license, MATAV was obliged by HIF to offer ASDL access to the alternative service providers at a wholesale price. MATAV expects to have a few thousand ADSL subscribers in 2000 and tens of thousands in 2001.
- *Voice Billing*, which enables customers to inquire about their bill balance any time during the billing period, was introduced in 1999.
- *Blue Numbers* (customers can call a company for the price of a local call), *Green Numbers* (customers can call a company free of charge) and *Private Green Numbers* for residential customers are available.
- *Call Completion* as a Directory Assistance option automatically connecting the customer with the number requested.
- *Calling Line Identification Presentation* (Caller ID) is available to customers in selected areas.
- *Partner Line* gives customers the opportunity to order a second line free of charge.
- *Voice Mail Service* was launched in November 1999. Subscribers have a choice of several customized solutions: Voice Mail Box, Voice Mail Box package, Family Voice Mail, Business Voice Mail or Voice Mail with a Virtual Phone Number.
- *Business Shop*, launched as an internet point of sale in 1999, offers MATAV customers the ability to purchase phone services online.

The local telephone operators provide the following Value-Added-Telecom services:

- *Vivendi* offers Call Forwarding, Call Barring, Call Waiting, Hot Line, Conference Call, Itemized Bill, Voice Mail, ISDN lines, and internet service.

- *HTCC* offers Voice Mail, Call Barring, Call Forwarding, Call Waiting, Conference Call, Calling Line Identification, Hot Line, ISDN, Green and Blue numbers, audiotex numbers, and internet services.
- *Monortel* provides ISDN lines, cable TV and internet services in addition to Call Waiting, Call Forwarding, Call Barring, Hot Line, Conference Call, Voice Mail, Calling Line Identification, and Itemized Billing.
- *Emitel* provides Call Forwarding, Call Waiting, Calling Line Identification, Call Barring, Hot Line, Voice Mail, Conference Call, Blue and Green numbers, Televoting, Voice Billing, Audiotex Numbers, Directory Service, managed leased lines, ISDN, and internet.

Value added services provided by mobile phone service providers include:

- *Westel Radiotelepone Co. Ltd*. offers voice mail services (voice mail storage and SMS notification, message forwarding, fax bank), Short Message Systems (e-mail to SMS, SMS to e-mail), Account Balance Info, Internet Access, WEB hosting, ordering mobile phone through the Internet, Mini Call Center, Blue and Green Numbers.
- *Westel 900* offers Call Barring, Call Forwarding, Calling Line Identification, Conference Call, Call on Hold, Call Waiting, Datafax (fax and data transmission service), Voice Mail, Fax Mail, Firm Information Service, GSM Telegram, Blue and Green Numbers, Mailreader, Mobile Bank, Reuters GSM Terminal, Short Message System, Voice Mail, Westel WebTel, Prepaid cards. Westel introduced WAP on February 1, 2000 and will offer General Packet Radio Service (GPRS) by the end of 2000. Westel 900 launched its SMS-brokerage services on September 13, 2000 allowing users to follow the prices of the Budapest Stock Exchange and to give buy or sell orders through SMS on their mobile phones.
- *Pannon GSM* provides Call forwarding, Call Barring, Call Waiting, Call on Hold, Calling Line Identification, Conference Call, Voice Mail, Short Messages System, Account information, Blue and Green number, Prepaid cards, and WAP.
- *Vodafone* offers voice mail, SMS, Vodafone Data and Fax (sending and receiving faxes, e-mails, browse the Internet, sending and receiving data applications such as intranet, travel reservation, automatic ordering applications), itemized billing, and WAP.

COMPETITIVE ANALYSIS

With the liberalization of the market in 2002, MATAV should face competition from three major interest groups. The first, KPN (the Dutch Telecom) already possesses a 75.2% stake in Pantel, an indirect stake in the internet service provider, Euroweb; and the 900 MHz mobile phone service provider, Pannon GSM. The second group, Vivendi Group is currently engaged in fixed line telephony, data communications and internet services. The third group is UPC, the market leader in cable TV service, which began broadband internet services through its cable system in 2000.

Besides the above-mentioned dominant (MATAV) and significant service providers there are newcomers as well. British Telecom opened a representation office in Budapest in October 1999. Telenor opened a representation office in October 2000 focusing on broadband and mobile internet services. The Irish owned eTel Hungary Co. Ltd. was established in September 2000 targeting the internet and telecom market of the Central-European region. The company will build a fiber optic cable network in Budapest and an exchange connecting to Frankfurt.

SALES PROSPECTS

Voice mail has been the most dynamic growth segment of the value-added telecom services with the addition of over 250,000 subscribers (only in MATAV's areas) since the fall of 1999 . Another field of development is the Directory Assistance, where the database of fixed line phone subscribers has been combined with that of the Westel mobile phone subscribers. Unified Messaging System and Voice over IP prepaid cards are not yet available but service providers focus on the development of these services.

MARKET ACCESS

New service providers cannot enter the Hungarian telecommunications market in fixed line long-distance telephony before MATAV's monopoly expires on December 31, 2001. Nor can they enter the local fixed line telephony markets prior to the expiration of the several LTO monopoly contracts (at various dates in 2002). The situation is essentially the same for mobile telephony with established operators enjoying monopoly or limited competition rights.

Currently only existing operators offer value added telecom services. However, data communications is an area of open competition and several companies are already engaged in this activity in order to position themselves to compete with the existing operators as their monopolies expire. There are no restriction or non-tariff barriers regarding the import of telecommunications equipment. Customs tariff classification is based on the uniform HS international nomenclature. All products, regardless or origin (EU, non-EU, domestic) are subject to a 25 percent VAT. Products of US origin are well received. However, these products face serious competition with third country providers (e.g., Siemens, Ericsson, Nokia, Alcatel, etc.).

MATAV procures telecom equipment directly and not through distributors. It is recommended for US companies to register themselves as potential suppliers with the Procurement Directorate of MATAV (see contact list) in order to participate in closed tenders. If MATAV buys products needed for concessionary activities, a public tender must be invited according to the Act on Public Procurement that requires open tenders for the purchase of goods exceeding HUF 16 million (USD 50,000); services over HUF 8 million (25,000). Local telephone operators also buy directly from suppliers. All major suppliers have local subsidiaries in Hungary.

END USER PROFILE

Value-added services are becoming more and more important to Hungarian telecom subscribers, especially to those who seek the convenience of faster internet access and more control over their telephone usage. All telecom service providers focus on business customers. Business subscribers are the main customers for managed leased lines, ISDN service, Blue & Green Numbers, Audiotex Service, televoting and teleconferencing services. Residential customers mainly use Voice Mail, Directory Assistance, Voice Billing, and the Digifon Services (call forwarding, call barring, call waiting).

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ISA Customer Satisfaction Survey

U.S. Department of Commerce
* International Trade Administration*
The Commercial Service

The U.S. Department of Commerce would appreciate input from U.S. businesses that have used this ISA report in conducting export market research. Please take a few moments to complete the attached survey and fax it to 202/482-0973, mail it to QAS, Rm. 2002, U.S. Department of Commerce, Washington, D.C. 20230, or Email: Internet[Opfer@doc.gov].

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1. Country covered by report: _____
Commerce domestic office that assisted you (if applicable):
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2. How did you find out about the ISA service?
   __Direct mail
   __Recommended by another firm
   __Recommended by Commerce staff
   __Trade press
   __State/private newsletter
   __Department of Commerce newsletter
   __Other (specify): _____

3. Please indicate the extent to which your objectives were satisfied:
   1-Very satisfied
   2-Satisfied
   3-Neither satisfied nor dissatisfied
   4-Dissatisfied
   5-Very dissatisfied
   6-Not applicable

   __Overall objectives
   __Accuracy of information
   __Completeness of information
   __Clarity of information
   __Relevance of information
   __Delivery when promised
   __Follow-up by Commerce representative

4. In your opinion, did using the ISA service facilitate any of the following?
   __Decided to enter or increase presence in market
   __Developed an export marketing plan

__Added to knowledge of country/industry
__Corroborated market data from other sources
__Decided to bypass or reduce presence in market
__Other (specify): _____

5. How likely would you be to use the ISA service again?
__Definitely would
__Probably would
__Unsure
__Probably would not
__Definitely would not

6. Comments:

_____

* * * About Your Firm * * *

1. Number of employees: __1-99 __100-249 __250-499
__500-999 __1,000+

2. Location (abbreviation of your state only):_____

3. Business activity (check one):
__Manufacturing
__Service
__Agent, broker, manufacturer's representative
__Export management or trading company
__Other (specify):_____

4. Export shipments over the past 12 months:
__0-1 __2-12 __13-50 __51-99 __100+

May we call you about your experience with the ISA service?
Company name: _____
Contact name: _____
Phone: _____

Thank you--we value your input!

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